AT&T

Robert W. Quinn, Jr.
Federal Government Affairs
Vice President

Suite 1000
1120 20th Street NW
Washington DC 20036
202 457 3851
FAX 202 457 2545

May 29, 2002

Electronic Filing
Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th St., SW, Room TWB-204
Washington, DC 20554

Re: FCC Seeks Comment On AT&T Request to Contribute to Universal Service Based on Projected Revenues, CC Docket No. 96-45, DA No. 02-376

Federal-State Joint Board on Universal Service, CC Docket No. 96-45; 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, CC Docket 98-171; Telecommunications Services for Individuals with Hearing Speech Disabilities and the Americans with Disabilities Act of 1990, CC Docket No. 90-571; Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-237, NSD File No. L-00-72; Number Resource Optimization, CC Docket No. 99-200; Telephone Number Portability, CC Docket No. 95-116; and Truth-in-Billing and Billing Format, CC Docket No. 98-170

Dear Ms. Dortch:

On Tuesday, May 28, 2002, Len Cali, Joel Lubin and I met with Commissioner Kathleen Abernathy and Matt Brill, Legal Advisor to Commissioner Abernathy. During the course of that meeting, we stressed the need for the Commission to grant AT&T's request to, on an interim basis, contribute to universal service based on projected revenues as a first step towards reforming the universal service assessment and collection mechanism. We highlighted the fact that the current assessment mechanism (which assesses AT&T, and consequently AT&T's customers, based on six-month old revenue data) results in AT&T's customers bearing a disproportionately higher share of the universal service contribution in the long distance marketplace. That fact is reflected in the current AT&T collection rate of 11.5% versus other carriers in the marketplace whose collection rates are significantly lower due solely to the fact that their interstate revenues are increasing. We reiterated that the current assessment mechanism, which bases assessment on (six-month old) interstate revenues, is irretrievably broken. AT&T's waiver would represent a first step at addressing the current inequitable mechanism, but that it should be only a first step.

We stressed the need for the Commission to also permanently fix the universal service contribution mechanism by adopting a per connection assessment methodology consistent with AT&T's and other carrier's comments as soon as possible for implementation on January 1, 2003. The attached documents were distributed and discussed during the meeting.

The positions expressed by AT&T were consistent with those contained in the Comments and ex parte filings previously made in the aforementioned dockets. One electronic copy of this Notice is being submitted for each of the referenced proceedings in accordance with the Commission's rules.

Very truly yours,

Robert W. Quinn Jr.

Enclosures
cc: Commissioner Abernathy
Matthew Brill

An Illustrative Attribution Analysis of the Current Federal USF Mechanisms
-- Assessment Vs. Recovery Rates

Quarterly Assessment Mechanism			
Baseline Assumptions:			
A	Contribution Factor	6.81%	As Published by the FCC/USAC Through FCC's Quarterly Public Notices
B	USF Assessment Base	$ 100,000,000	As Reported By The Telecommunications Carrier To The USAC In Their Form 499Q. Note: Revenues Reported In A Carrier's 499Q Includes Their Interstate and International Retail Revenues ***Plus Their USF Collection*** For Any Given Quarter.
C = A * B	USF Obligation	$ 6,810,000	Expected USAC's Quarterly Billing To That Telecommunication Carrier

Quarterly Recovery Mechanisms					
		Recovery Rate	*Recovery Base*	*Recovered Amount*	*Remarks*
D	No Lag/No Adjustments	6.81%	$ 100,000,000	$ 6,810,000	Recovery= Assessment
E	Line D Adjusted To Exclude USF Revenues	7.49%	$ 90,909,091	$ 6,810,000	Assuming historical recovery rate as 10% and non-USF revenue as R. Then R+(R*.10) = $100,000,000 or R= ($100,000,000/1.1) =$90,909,091. ** SEE NOTE BELOW.
F	Line E Adjusted for Uncollectible Revenues	7.89%	$ 86,363,636	$ 6,810,000	Assuming 5% Uncollectibles -- USF charges will not be collected from 5% of the revenue base 90.909.091 x .05
G	Line F Adjusted for Declining Revenue Base (I.e. Lag Effect)	10.51%	$ 64,772,727	$ 6,810,000	Assuming revenues have declined by 25% over the past 6 months. As a result, USF obligation will be recovered from a smaller revenue stream.
H	Line G Adjusted for Unbillable Revevenues	11.68%	$ 58,295,455	$ 6,810,000	Assuming 10% Unbillables -- 10% of the revenue base can not be billed USF charges

** NOTE: A Telecommunication Carrier's Reported Revenue Included Their USF Collection During That Period. In Order To Estimate and Back-Out Those USF Revenues One Need To Use Their Recovery Rate For That Historical Period. For This Analysis It Is Assumed To Be 10%.

File: 1-15-2002_UPDATED_Illustrative Example of USF Recovery and Assessment Rates
Worksheet: Illustrative Example

Date: 1/15/2002
AT&T L&PP

An Illustrative Attribution Analysis of the Current Federal USF Mechanisms
-- Assessment Vs. Recovery Rates

Quarterly Assessment Mechanism			
Baseline Assumptions:			
A	Contribution Factor	6.81%	As Published by the FCC/USAC Through FCC's Quarterly Public Notices
B	USF Assessment Base	$ 100,000,000	As Reported By The Telecommunications Carrier To The USAC In Their Form 499Q. Note: Revenues Reported In A Carrier's 499Q Includes Their Interstate and International Retail Revenues ***Plus Their USF Collection*** For Any Given Quarter.
C = A * B	USF Obligation	$ 6,810,000	Expected USAC's Quarterly Billing To That Telecommunication Carrier

Quarterly Recovery Mechanisms -- WITH INCREASING REVENUE BASE					
		Recovery Rate	***Recovery Base***	***Recovered Amount***	***Remarks***
D	No Lag/No Adjustments	6.81%	$ 100,000,000	$ 6,810,000	Recovery= Assessment
E	Line D Adjusted To Exclude USF Revenues	7.27%	$ 93,624,192	$ 6,810,000	Assuming historical recovery rate as 10% and non-USF revenue as R. Then R+(R*.0681) = $100,000,000 or R= ($100,000,000/1.0681) =$93,624,192. ** SEE NOTE BELOW.
F	Line E Adjusted for Increasing Revenue Base (I.e. Lag Effect)	6.06%	$ 112,349,031	$ 6,810,000	Assuming revenues have INCREASED by 20% over the past 6 months. As a result, USF obligation will be recovered from a HIGHER revenue stream.
G	Line F Adjusted for Uncollectible Revenues	6.38%	$ 106,731,579	$ 6,810,000	Assuming 1% Uncollectibles -- USF charges will not be collected from 1% of the revenue base
H	Line G Adjusted for Unbillable Revevenues	6.38%	$ 106,731,579	$ 6,810,000	Assuming 0% Unbillables -- NO REVENUES SHOULD BE EXCLUDED FOR UN-BILLABLES

** NOTE: A Telecommunication Carrier's Reported Revenue Included Their USF Collection During That Period. In Order To Estimate and Back-Out Those USF Revenues One Need To Use Their Recovery Rate For That Historical Period. For This Analysis It Is Assumed To Be 6.81%.

USF AMOUNT OVER COLLECTED PER QUARTER BY THIS CARRIER IF THEY USE USAC's RATES OF 6.81% =	$ 458,421

File: 1-15-2002_UPDATED_Illustrative Example of USF Recovery and Assessment Rates
INCREASING REVENUE

Date: 1/15/2002
AT&T L&PP

OPERATIONALIZING AT&T's WAIVER REQUEST
Effective July 1, 2002 for 3rd Quarter with 1/1/03 Implementation of CoSUS Proposal

- AT&T files projections of revenues for the 3rd Quarter of 2002 with USAC (Prospective 499Q) – 5/21/02
- FCC grants AT&T waiver by May 23, 2002
- USAC calculates the revenue assessment rate for the 3rd Quarter of 2002 by dividing the projected USF funding requirements by the revenue base adjusted to remove AT&T historical revenues and replace with AT&T projected revenues for the 3rd Quarter of 2002 – May 23, 2002.
- USAC bills respective Carriers based on their submissions according to the current billing schedule – July 15, August 15, and September 15
- All carriers remit contributions according to current payment schedule – August 15, September 15, and October 15
- Carriers File Form 499-Q with USAC – August 1, 2002
  - AT&T files projections of 4th Quarter in addition to its historical 2nd Quarter revenues.
- USAC calculates the revenue assessment rate for the 4th Quarter of 2002 by dividing the projected USF funding requirements by the revenue base adjusted to remove AT&T historical revenues and replace with AT&T projected revenues for the 4th Quarter of 2002 – September 6, 2002.
- USAC bills respective Carriers based on their submissions according to the current billing schedule – October 15, November 15, and December 15
- All Carriers remit contributions according to current payment schedule – November 15, December 15, and January 15
- Carriers File Form 499-Q with USAC based on 3rd Quarter historical revenues– November 1, 2002

OPERATIONALIZING AT&T's WAIVER REQUEST
Effective July 1, 2002 for 3rd Quarter with 1/1/03 Implementation of CoSUS Proposal
(cont'd)

- FCC Issues Order regarding CoSUS Proposal – December 16, 2002

- FCC issues a public notice containing all the initial assessment rates of CoSUS Proposal to be effective 1/1/03[1] – December 30, 2002
  - Residence wireless and wireline, Single line business, and Wireless business customers would be assigned an assessment rate of $1 per month per line/number
  - Lifeline customers would be assigned $0
  - Pagers would be assigned $0.25 per number per month
  - Special Access and Private Line services would be assessed at 4th Quarter revenue-based assessment rate
  - The switched Multiline business rate would be calculated as a residual by taking USAC's projected size of the federal USF funding requirement for the 1st Quarter of 2003, increase that estimate by a factor to create a reserve against the initial USF assessments not collected and remitted by the contributors,[2] subtracting the estimated revenues to be collected from residential and single line business, non-paging CMRS, paging and special access/private line, and dividing by the administrative estimate of switched Multiline business lines.

- Carriers contribute to USF based on a collect and remit basis –February 28th, March 30th, April 30th
  - Carriers apply USF to monthly billings for January, February, and March
  - Carriers remit USF receipts to USAC on February 28th, March 30th, and April 30th

- Continue quarterly until implementation of Post-transition phase of CoSUS Proposal

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[1] For the 4th Quarter, the estimates for line counts and revenues for all customer classifications would be based on the Commission's analyses of various sources. The proposed Form 499-M is not expected to be available for setting the initial assessment rates.

[2] This would replace the existing reserve for amounts uncollectible from contributors. It would be prudent for the Commission to establish a small reserve to cover the initial adjustments for uncollectibles under collect and remit.

OPERATIONALIZING AT&T's WAIVER REQUEST
Effective July 1, 2002 for 3rd Quarter with 1/1/03 Implementation of CoSUS Proposal (cont'd)

- True-up Mechanism[3] - Applied in 1st Quarter 2003
  - USAC compares AT&T projected revenues for 3rd Quarter 2002 with actual revenue from November 1st Form 499-Q
  - USAC calculates the AT&T (plus/minus) adjustment to the 3rd Quarter assessment based on the difference between the projected revenue base and actual revenue base.
  - USAC applies the AT&T adjustment as an increment to the 1st Quarter 2003 USF funding requirement[4]
  - USAC settles with AT&T based on the difference between their projected revenues for the 3rd Quarter and their actual revenues from their Nov 1st Form 499-Q.

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[3] True-ups are applicable to any quarter for which usf assessments are based on carrier projected data. Adjustments are made to the usf assessments for the second quarter following the quarter that is based on projected data, i.e., the 3rd Quarter 2002 assessments are "trued-up" in the 1st Quarter 2003, using the November 1st Form 499-Q, and the 4th Quarter 2002 assessments are "trued-up" in the 2nd Quarter 2003, using the February 1st Form 499-Q.

[4] If AT&T actual revenues for the 3rd Quarter exceeded the projections, then the 1st Quarter 2003 USF funding requirement can be lowered as the difference will be made up by USAC settlements with AT&T. If the projections for the 3rd Quarter exceeded AT&T's actual revenues, then the 1st Quarter 2003 USF funding requirement must be raised to reimburse AT&T, who overpaid in the 3rd Quarter.

Robert W. Quinn, Jr.
Federal Government Affairs
Vice President & Director

Suite 1000
1120 20th Street NW
Washington DC 20036
202 457 3851
FAX 202 457 2545

May 15, 2002

VIA ELECTRONIC FILING

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: Notice of Ex Parte Presentation:
FCC Seeks Comment On AT&T Request to Contribute to Universal Service Based on Projected Revenues, CC Docket No. 96-45, DA No. 02-376.

Federal-State Joint Board on Universal Service, CC Docket No. 96-45; *1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms*, CC Docket No. 98-171; *Telecommunications Services for Individuals with Hearing Speech Disabilities and the Americans with Disabilities Act of 1990*, CC Docket No. 90-571; *Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size*, CC Docket No. 92-237, NSD File No. L-00-72; *Number Resource Optimization, CC Docket No. 99-200; Telephone Number Portability*, CC Docket No. 95-116; and *Truth-in-Billing and Billing Format*, CC Docket No. 98-170.

Dear Ms. Dortch:

AT&T Corp. ("AT&T") respectfully urges the Commission expeditiously to grant AT&T's December 13, 2001 request for a waiver of the universal service fund ("USF") contribution rules to address the profound anticompetitive harms caused by the USF "lag" in the long-distance marketplace.[1] There can be no serious dispute that there is a systemic problem with the contribution rules, caused by the facts that contributions are based upon prior period revenues that for many carriers are vastly different from current period revenues. This "USF lag" has caused AT&T's USF contribution obligations to grow substantially relative to its revenue base, while at the same time, causing the USF contribution obligations of other carriers,

[1] *See* Letter From Robert W. Quinn (AT&T) to Magalie Roman Salas (FCC Secretary), *Proposed First Quarter 2002 Universal Service Contribution Factor*, CC Docket No. 96-45 (filed December 13, 2001) ("Waiver Request").

including AT&T's fastest growing competitors, the regional Bell Operating Companies ("RBOCs"), to remain far less than is appropriate given their large and growing revenue bases. As a result of this known bias in the Commission's USF contribution rules, AT&T is put at a severe economic disadvantage relative to its competitors, and AT&T's more than 50 million residential customers bear a disproportionately greater burden than do other residential customers.

Granting AT&T's waiver request will have substantial public interest benefits. Residential customers immediately will experience an average reduction in their USF contributions rates of at least 0.40 percentage points (this represents approximately a 4 percent reduction from the current average residential recovery rate). In addition, all residential customers will further benefit because a grant of AT&T's waiver will help restore a level long-distance playing field. Because the fundamental industry changes that cause AT&T's universal service contributions to be so inflated are systemic, not transient, and fall so disproportionately on AT&T and its customers, the special circumstances that justify a waiver are clearly present here. There is no question, therefore, that a grant of AT&T's request for a waiver is appropriate and should be granted promptly. And, as demonstrated below, prompt implementation of AT&T's waiver is a straightforward matter of computing AT&T's third quarter contribution factor based on AT&T's projected revenues for that quarter, rather than on AT&T's revenues from prior quarters, with any errors in AT&T's projections subject to an easily implemented true-up mechanism. In other words, the waiver request can readily be integrated into the existing USF assessment process.

I. A GRANT OF AT&T'S WAIVER REQUEST IS IN THE PUBLIC INTEREST.

A grant of AT&T's waiver request will result in immediate savings to the average interstate customer. Absent a waiver, AT&T's third quarter USF recovery factor will be about 12.4 percent of its third quarter revenues. But if AT&T's request for a waiver is granted AT&T's third quarter recovery factor – the percent that AT&T interstate residential customers contribute to universal service – will fall by 2.0 percentage points (to 10.4 percent of AT&T's third quarter 2002 revenues).[2] Consequently, over 50 million residential customers will see a 2.0 percentage point reduction in the universal service fee that appears on their long-distance telephone bill.

Of course, as explained by AT&T in its waiver request, a grant of that waiver will result in a slight increase in the USF contribution factor for all other interstate carriers. In its December 13, 2001 Waiver Request, AT&T explained that a reasonable estimate of that increase in the contribution factor for other carriers is 0.2 percentage points. However, given the continued decline in AT&T's market share since AT&T initially filed its request for a waiver, the increase in that contribution factor is now closer to 0.3 percentage points. Thus, assuming that the third quarter 2002 contribution factor would be 8.16 percent if AT&T's waiver request were denied, that contribution factor would increase to 8.46 percent if AT&T's waiver request were granted. The 2.0 percentage point decrease enjoyed by over 50 million AT&T residential customers offsets the 0.3 increase that other carriers are assumed to pass on to their customers.

[2] These figures are based on AT&T's best estimate of the contribution factor. These figures will be revised after the Commission finalizes the actual contribution factors in June.

In fact, the average residential USF recovery rate will fall by 0.40 percentage points.[3] *See* Exhibit 1.

In reality, however, RBOCs and other carriers that benefit from the USF lag will not have to – and should not – pass on any increases in their USF contributions to their interstate customers, because these carriers' quarter-to-quarter revenue increases are likely to more than make up for the slight increase in the contribution factor. Indeed, many of these carriers are likely already overrecovering their USF contributions. Thus, if the Commission grants AT&T's waiver request, and that waiver results in a small increase in the contribution factor, there would be no legitimate justification for the RBOCs to reflect that increase in their end-user universal service rates.[4]

Even aside from these immediate consumer benefits of a grant of AT&T's waiver, customers also would benefit from increased wireline long-distance competition. As demonstrated by AT&T in its December 13 Waiver Request and in its April 22, 2002 Reply Comments, the current USF contribution mechanism distorts wireline long-distance competitive markets by providing RBOCs that have received long-distance authority (and other carriers with increasing revenues) with a substantial competitive advantage relative to existing long-distance providers. A grant of AT&T's waiver request would reduce this competitive distortion, allowing existing long-distance carriers to compete on more equal footing with RBOCs.

II. SPECIAL CIRCUMSTANCES JUSTIFY A GRANT OF AT&T'S WAIVER REQUEST.

The Commission's stated reasons for rejecting similar waiver requests simply are not applicable here. Prior waiver applicants made only general allegations that in a competitive environment they had experienced revenue losses in particular periods. The Commission rejected those waiver requests on the grounds that "annual revenue variations are an inherent part of the competitive environment in the telecommunications industry" and that "there may be

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[3] The USF lag has the largest impact on AT&T's residential customers. Therefore, the costs caused by the USF lag accrue disproportionately to AT&T's residential customers. Thus, it is not surprising that, on average, all residential customers will greatly benefit from the waiver.

[4] An example illustrates this point. Assume that there are only two USF contributors, AT&T and an RBOC, each with $500 in revenues for the first quarter of 2002. Assume further that the USF revenue requirement for the third quarter of 2002 is $81.60. On these facts, the existing USF contribution rules result in base contribution revenues of $1000 ($1000 = $500 + $500), and the USF contribution factor would be 8.16 percent (8.16% = $81.60 / $1000). The RBOC's nominal contribution obligation for third quarter of 2002 is $40.80 ($40.80 = 8.16% x $500). However, if the RBOC's actual third quarter 2002 revenues increase by 5 percent (to $525) between the first and third quarters of 2002, the amount that it actually would recover if it passed on to its customers an 8.16 percent USF fee, is $42.84, or 5 percent more than its actual USF contribution obligation. *See also* Letter From Robert W. Quinn (AT&T) to Magalie Roman Salas (FCC Secretary), *Proposed First Quarter 2002 Universal Service Contribution Factor*, CC Docket No. 96-45 (filed January 16, 2002).

various circumstances which cause carriers to experience such revenue declines from year to year," but "without more, [that] . . . is [an] insufficient basis for a waiver of the requirement that universal service be based on prior . . . revenues." *See* Memorandum Opinion and Order and Seventeenth Order on Reconsideration, 15 FCC Rcd. 20769, ¶ 30 (1999).

AT&T's revenue declines, in contrast, are not a function of mere year-to-year revenue variations, but of fundamental structural changes, including RBOC long distance entry and chronic shifts of traditional long-distance traffic to new wireless and Internet substitutes. Those changes have not resulted merely in overpayments by AT&T in some years, but in massive dislocations between AT&T's universal service burden (and the associated burden on the more than 50 million AT&T residential customers) and the universal service burdens of its long-distance competitors. That, in turn, has created severe competitive distortions that only accelerate the decline in AT&T's revenues and thereby further exacerbate the regulatory lag problem. And, because AT&T has the largest share of long-distance revenues, the consequences of this "vicious circle" of competitive distortions has unquestionably fallen principally upon AT&T and its customers.

There is no question that AT&T has been particularly hard hit by the USF lag. The introduction of numerous alternatives to wireline long-distance services (*e.g.*, "all distance" wireless services, email, and instant messaging) has had a substantial and disproportionate impact on the revenue base of existing long-distance carriers. The universal service revenue base of traditional, non-RBOC long-distance carriers fell by more than $2 billion from the third quarter of 1999 to the third quarter of 2001 (a more than 17% decline). AT&T revenue declines accounted for *more than half* of that decline. On this record, there can be no legitimate dispute that recent non-market events have artificially placed AT&T at a unique and severe competitive disadvantage and that the Commission must grant AT&T's waiver request to restore a level playing field. Under these "special circumstances" the Commission can and should grant AT&T's waiver request.

III. IMPLEMENTATION OF AT&T'S WAIVER REQUEST IS STRAIGHT-FORWARD.

As demonstrated in AT&T's December 13 Waiver Request, implementation of that waiver would be straightforward. AT&T will submit projected revenues for the upcoming quarter to USAC. Those projected revenues will be used by USAC, in place of AT&T's actual historical revenues, to compute the USF contribution factor. AT&T's quarterly USF contribution will be equal to the contribution factor multiplied by AT&T's revenue projections for that quarter. To the extent that AT&T's projections deviate from its actual revenues for that quarter, the amount of AT&T's overpayment or underpayment caused by that projection error will be accounted for by a true-up mechanism.

A true-up mechanism could be implemented as follows. If AT&T's actual revenues, say for the third quarter of 2002, exceed its projected revenues for that quarter, then the amount that AT&T contributed to the universal service fund (based on the lower projected revenues) will be less than AT&T should have contributed to the fund (based on its higher actual revenues). To make up for AT&T's underpayment, AT&T will pay USAC the difference between the amount that AT&T should have contributed in the third quarter of 2002 and the amount that it actually contributed. USAC would then apply that amount to the USF funding requirement for the first quarter of 2003, thereby lowering the amount that needs to be collected for that period.[5]

A similar approach will be used if AT&T's actual revenues for the third quarter of 2002 are lower than its projected revenues for that quarter. In that case, the amount that AT&T contributed to the universal service fund (based on the higher projected revenues) will be higher than AT&T should have contributed (based on its lower actual revenues), and the rest of the universal service fund contributors will have underpaid. To compensate AT&T for this overpayment, USAC will increase the USF funding requirement for the first quarter of 2003 in order to reimburse AT&T for its third quarter 2002 overpayment.

I have submitted one electronic copy of this Notice in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

Robert W. Quinn Jr.

cc: Chairman Michael Powell
Kyle Dixon
Commissioner Kathleen Abernathy
Matthew Brill
Commissioner Michael Copps
Jordan Goldstein
Commissioner Kevin Martin
Daniel Gonzalez
Dorothy Attwood
Carol Mattey
Jessica Rosenworcel
Katherine Schroder
Eric Einhorn
Anita Cheng
Paul Garnett

[5] The true-up cannot take place in the fourth quarter of 2002 because AT&T reports it actual earnings for the third quarter during the fourth quarter. Thus, the earliest that true-up amounts could be computed and applied would be the first quarter of 2003.

What happens to "Consumer Recovery Rates" if AT&T's Waiver Request is granted?

	ENDUSER DATA BY FILER -- 2001 499Q Annualized **CONSUMER ONLY (From the Consumer-Business Split Worksheet)**		**Change in Recovery Rates Due to AT&T's Waiver****
	Revenue ($ Millions)	**Share of the Total (%)**	**CONSUMER ONLY**
A. LOCAL SERVICE PROVIDERS:			
ALL CARRIERS	$ 7,496	19.38%	0.3%
B. WIRELESS SERVICE PROVIDERS:			
ALL CARRIERS	$ 5,587	14.45%	0.3%
C. TOLL SERVICE PROVIDERS:			
AT&T (46%)*	**$ 11,770**	**30.44%**	**-2.0%**
Other Toll Carriers (54%)	$ 13,817	35.73%	0.3%
ALL CARRIERS	$ 25,588	66.17%	
TOTAL	**$ 38,671**	**100.00%**	
AVERAGE INDUSTRY RECOVERY RATE (Consumer Only) =			**-0.4%**

* AT&T's Revenue is derived from Total Toll Carriers using a 46% market share [Source: Figure 5-9, U.S. Retail Long-Distance Voice Revenue Market Share: 2000, Fixed Public Network Services Market Trends: United States, 2000-2005, Gartner Group, Inc, Publication Date: June 8, 2001]

** Assuming third quarter 2002 Federal USF Contribution Factor, without the waiver request, would be 8.16% , and granting of AT&T's waiver would reduce AT&T/Industry contribution base. Lower Contribution Base will yeild lower USF collection by USAC. As a result, USAC has to **increase their Contribution Factor for all carriers to 8.46% -- an increase of 0.3%- to ensure full recovery of program costs.**

NOTES:

- AT&T's 2nd Half Recovery Rate will be 12.4% without the Waiver and 10.4% with the Waiver Granted -- **a reduction of 2.0%.**

File: USF LAG Ex parte exhibit.xls
Folder: USF Recovery

Date:5/15/2002
Worksheet:Consumer Benefit